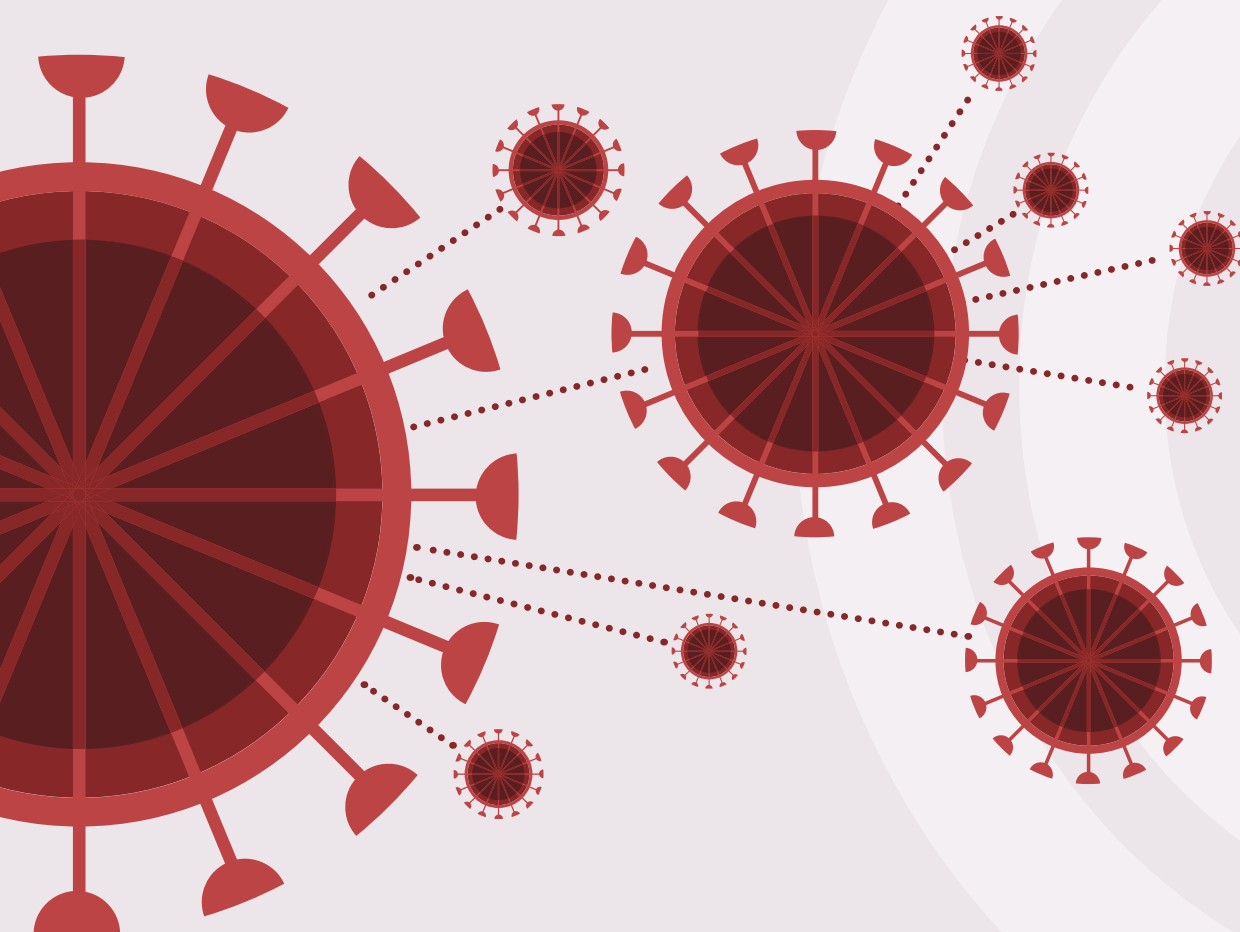


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Covid-19 and the self-employed - 18 months into the crisis

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Covid-19 and the Self-Employed - 18 Months into the Crisis

CEP COVID-19 ANALYSIS

Robert Blackburn, Stephen Machin and Maria Ventura

November 2021

Summary

- The fourth LSE-CEP survey of self-employment was undertaken in September 2021, following the previous three of May 2020, September 2020 and February 2021.
- The economic fortunes of self-employed workers have been hit hard throughout the pandemic. They have seen some improvement since January 2021, although incomes and profits are still notably some way below pre-crisis levels.
- Just below 30 per cent of self-employed still report financial difficulties with essential expenses.
- Among the under 30s, 38 per cent report struggling to pay basic expenses compared to 27 per cent of over 30s. And 35 per cent of self-employed workers who are parents reported financial difficulties.
- Applications for government support have dropped significantly.
- A small group of self-employed have applied for all rounds of support.
- Uncertainty around eligibility for government support has been high for the last 18 months and increased in 2021. This higher degree of uncertainty contributed to the decrease in claims.
- After a year in which movements out of self-employment have prevailed, inflows have started to pick up. However, new entrants to self-employment appear more precarious and show less resilience to adverse economic conditions than those already in self-employment.
- Overall, the survey results show an unequal impact of the crisis on the self-employed, with the observed inequalities being connected to their demographics and business sector.

Introduction

A year and a half into the Covid-19 pandemic, growth and economic recovery are the latest watchwords amongst labour market commentators in the UK. The efforts of the government to bring the country back to normality, through the easing of restrictions and the withdrawal of income support schemes, are having a range of effects. Reflecting this positive outlook on the economy, the Office for Budget Responsibility has revised its forecasts for UK economic growth, raising GDP expected increase from 4% to 6.5% in 2021 (OBR, 2021). Nevertheless, labour market statistics show that employment has not returned to pre-crisis levels. The latest evidence from the ONS (2021) suggests employment for most categories remains well below February 2020. Moreover, the increase in Covid-19 cases in the recent weeks has re-ignited the debate on the potential reintroduction of some distancing measures.

Following previous work from the Centre of Economic Performance (CEP) on the relationship between self-employment and the crisis induced by the pandemic (Blundell and Machin, 2020; Blundell et al, 2020, 2021), this report continues to monitor the situation of the self-employed in this new economic phase. As earlier evidence has shown, this group has been hit particularly hard by the crisis and activity remains significantly below pre-pandemic levels, and thus deserves that particular attention be devoted to monitoring its recovery process. In the last six months, the government has confirmed its support towards the self-employed and met its commitment to make available two additional grants through the Self-Employment Income Support Scheme (SEISS). Even so, the analysis in this report shows that widespread uncertainty about eligibility for support amongst the self-employed, deriving from changes in eligibility conditions and reduced press coverage, has caused a significant drop in the number of the scheme's beneficiaries.

In this fourth policy brief, we provide an update on the situation of the self-employed workers amid policy attempts at economic recovery. From 15-25 September we ran the fourth round of the LSE-CEP Survey of UK Self-employment, collecting responses from 1,500 self-employed workers.¹ The survey questions range from basic demographics to statistics on incomes and hours, respondents' concerns, expectations and interactions with government support, and covers multiple months in the year up to the survey. We also draw upon data from the Labour Force Survey (LFS), whose most recent wave is also used to weight survey results and make it representative. Additional details on how the data were collected are provided in Appendix B.

Incomes remain below pre-pandemic levels

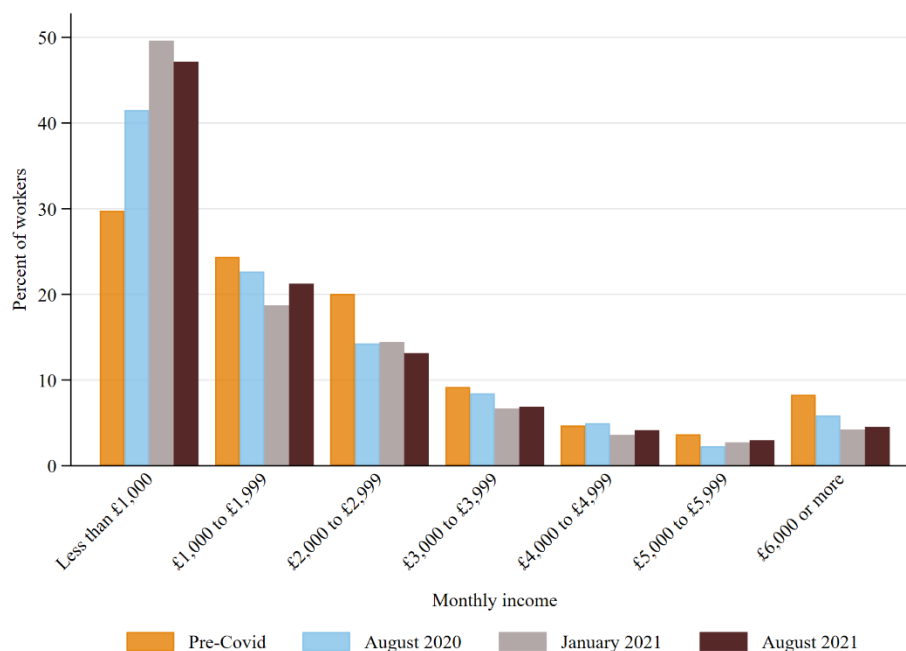
In spite of some widespread semblance of economic recovery and growth, our survey results show 39 per cent of the self-employed report having less work in August 2021 than they would usually have at this time of the year. The figure is an improvement from both the levels of January 2021 (62 per cent, Blundell et al, 2021) and August 2020 (58

¹ Of these, about 1160 were still self-employed at the time of the survey, while the rest has survived the panel selection due to outdated records. While most of the presented analysis uses the first, reduced, sample, we also use information on previously self-employed where indicated in the text.

per cent, Blundell et al, 2020). Nevertheless, just below three quarters (72 per cent) of these attribute the cause of reduced work to Covid-19 and the subsequent restrictions.

Lower levels of self-employed work are reflected in the current income distribution of self-employed. Figure 1 shows that although reported incomes are higher in August than in January 2021, they are still far below pre-Covid levels, and even lower than one year ago. Figure A1 in Appendix A confirms a similar, if not more dramatic, scenario for profits.

Figure 1: Monthly incomes – Before Covid, August 2020, January 2021, August 2021

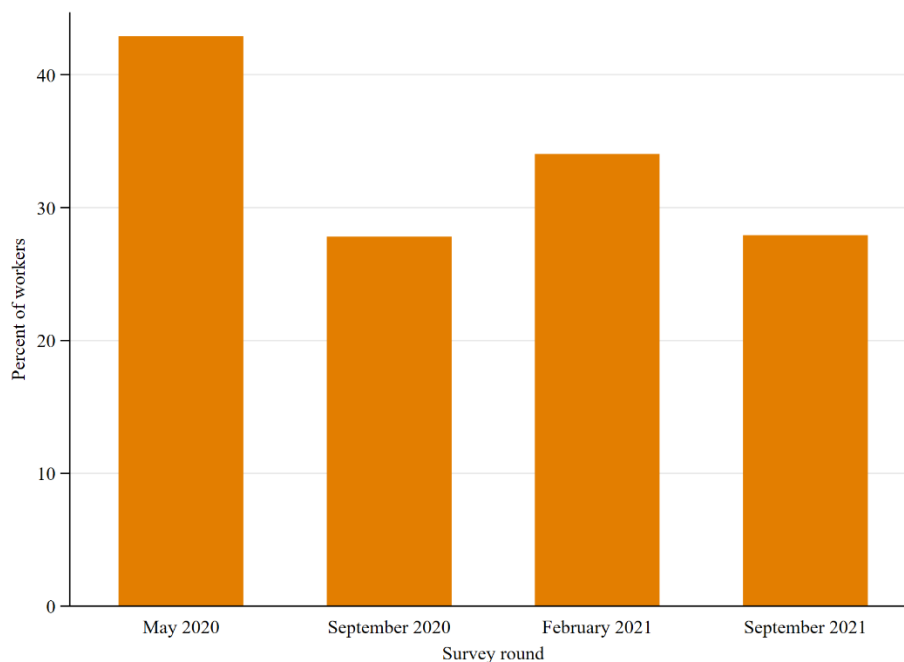


Source: LSE-CEP Survey of UK Self-employment September 2021.

In all our surveys, we have asked respondents whether in the previous month they had experienced trouble paying basic expenses, such as rent, mortgage repayments, bills and other essentials. Figure 2 shows responses to this question in the different survey rounds. After the initial shock and peak of the first lockdown the share of self-employed workers in financial trouble has dropped but now plateaued, fluctuating around a lower, but still substantial 28 per cent.

Our detailed analysis uncovers an unevenness in the financial well-being across the self-employed. In particular, 35 percent of parents report trouble paying for basic expenses over the previous month, 10 percentage points higher than workers without children. Among non-parents, women are about 7 percentage points more likely than men to have financial issues (30% compared to 23%). Similarly, 38 per cent of those under 30 report struggling financially – 40 percent more than those over 30 (27%). This confirms research from elsewhere on the uneven impact of the crisis on the self-employed (OECD, 2021).

Figure 2: Share experiencing financial difficulties in the previous month



Source: LSE-CEP Survey of UK Self-employment May 2020, September 2020, February 2021 and September 2021.

Government support sees lower take-up rates but more uncertainty over eligibility

In the last months, the government has continued to offer targeted support to the self-employed. In particular, while many business schemes have been progressively withdrawn, two additional rounds of SEISS became available in 2021. The fourth payment was open for applications in late Spring while the fifth and last one closed on 30 September 2021. The latter also changed the payment criteria, establishing a low and a high payment depending on the reported drop suffered in turnover (HMRC, 2021a).

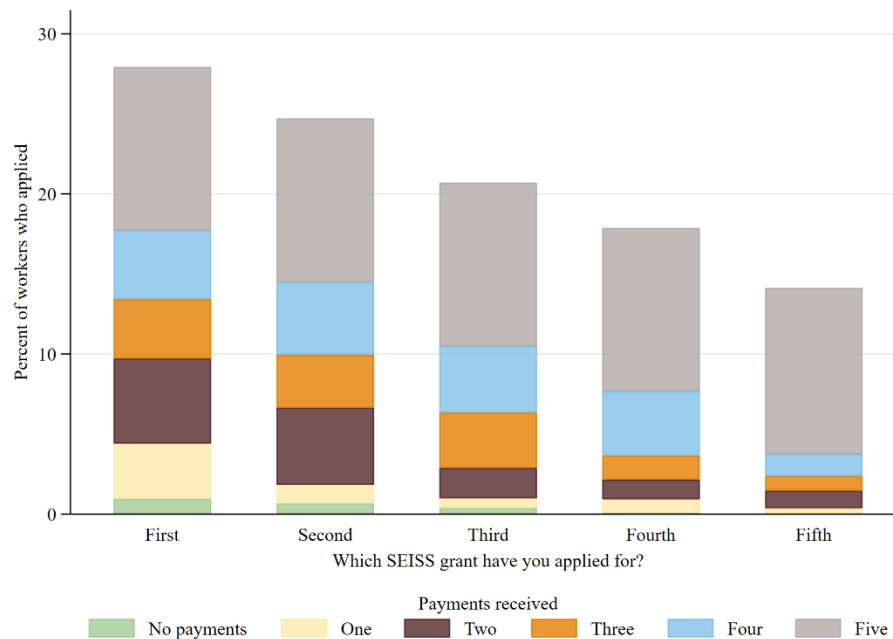
According to the HMRC (2021b) 2.9 million workers have claimed at least one grant to date, although the take-up rate fell from 77% for the first grant to 33% for the most recent. The trend is confirmed by Figure 3, which draws upon our survey data.² The last grant was still open for applications at the time of the survey but, among non-apppliers, very few report intending to apply later in the month.

The graph also shows, for each group of applicants, the amount of grants received. Interestingly, about 10 per cent of individuals in self-employment applied for all five rounds of the programme, suggesting that there is a consistent core of SEISS beneficiaries. Statistical regression analysis (see Appendix Table A1) reveals that older

² Percentages reported in the figure are lower than take-up rates as they are calculated against all self-employed, rather than only eligible ones.

self-employed, or those that have been longer in business, are more likely than younger newcomers to have received four or five grants. Although the reasons for this difference are not clear in the data, they are likely to be associated with awareness and eligibility conditions.

Figure 3: Share of self-employed applying for SEISS and number of grants received



Notes: Responses to the question “Which SEISS grant have you applied for?” and “How many SEISS payments have you received?” For each grant, the height of the bar represent the share of self-employed who applied for the considered grant. The different colours show the distribution of payments paid to the applicants of each grant.

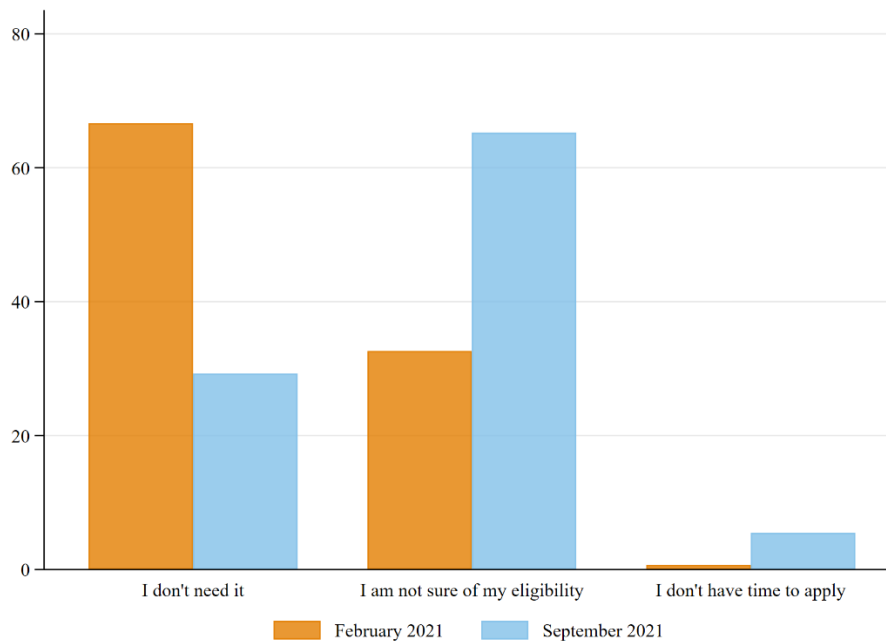
Source: LSE-CEP Survey of UK Self-employment September 2021.

The drop in applications for grants might, on first consideration, seem counterintuitive, especially given that the latest two grants (fourth and fifth) made eligible those self-employed who started trading after 6 April 2019, whereas they were previously excluded. In order to further investigate the issue, Figure 4 shows the main reasons reported by individuals who have claimed no payments under the SEISS scheme. We report responses from the last two surveys and exclude those self-employed who have no doubts on their ineligibility. The contrast between the two survey rounds is quite striking, with almost symmetric responses around the first two options.

Clearly, changes in the requirements for the last SEISS grant seems to have created more uncertainty around the eligibility, and therefore discouraged some self-employed from applying. Consistently, a fifth of those who applied report having difficulties in calculating their turnover, and 38 per cent are unsure, even after applying, of whether they will receive the high or the low payment. A research briefing produced by the House

of Commons also confirms that media coverage for the last grant has been lower than for the previous payments (Seely, 2021). The report also highlights the uncertainty around the fiscal treatment of the SEISS grants (effectively chargeable to income tax and National Insurance) and the fear amongst the self-employed that they could face unexpectedly high tax bills for 2020/21.

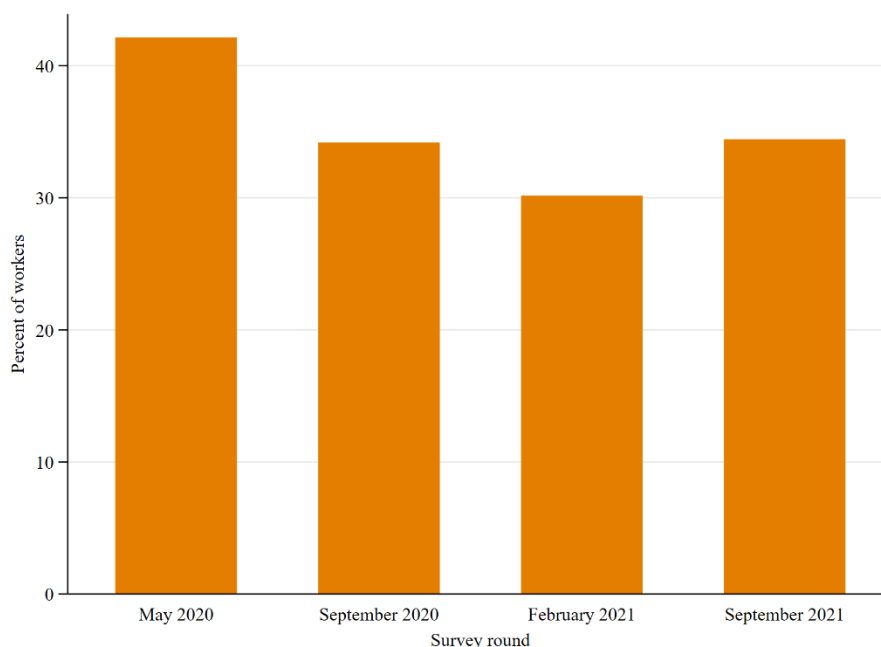
Figure 4: Reasons for not applying to SEISS



Source: LSE-CEP Survey of UK Self-employment February 2021 and September 2021.

A similar pattern emerges from considering Figure 5 where, confirming our previous findings (Blundell and Machin, 2020; Blundell et al, 2020), a significant share of the self-employed is still not sure about their eligibility. The graph uses data from current and past CEP surveys. It shows that that a third of the self-employed has been consistently in doubt about their eligibility, albeit with a drop in this uncertainty of less than 10 percentage points since the scheme was first introduced in May 2020. The results also find that the share of those in doubt is lower amongst those that have been self-employed for longer and for those with employees. Again, this highlights the unevenness in the experiences of the effects of the crisis amongst the self-employed population and at a greater know-how of individuals who have been in the business for years before the pandemic, compared with newly self-employed.

Figure 5: Share of self-employed uncertain about their eligibility

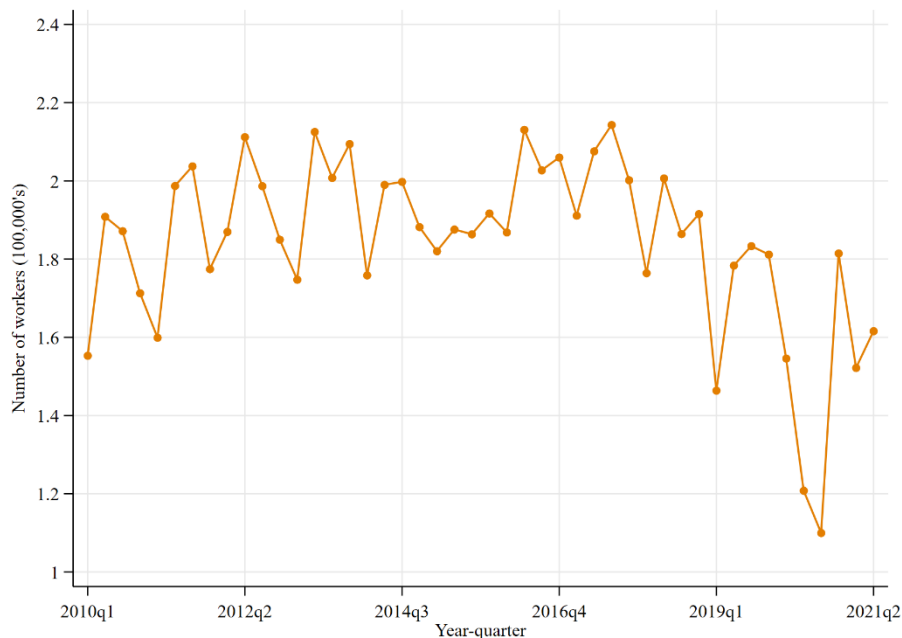


Source: LSE-CEP Survey of UK Self-employment May 2020, September 2020, February 2021 and September 2021.

Newly self-employed enter the sector out of necessity

The last eighteen months have certainly seen several changes in the composition of the self-employed population. The lockdowns have been characterized by consistent outflows of workers, often driven by managers and company directors (Blundell et al, 2021). At the same time, we have witnessed inflows of new self-employed workers and during the last year the labour market has experienced new surges of workers in the sector. Figure 6 uses the latest available Labour Force Survey data to show inflows, defined as workers who became self-employed either in the survey quarter or the previous one. We see that the last quarter of 2020 saw a, partly temporary, spike in the number of individuals joining self-employment: the highest increase in the plotted period. Although fluctuations exist, the subsequent development of the Covid-19 pandemic and related policies do not seem to have affected the entry of new self-employed workers dramatically.

Figure 6: Number of new self-employed workers

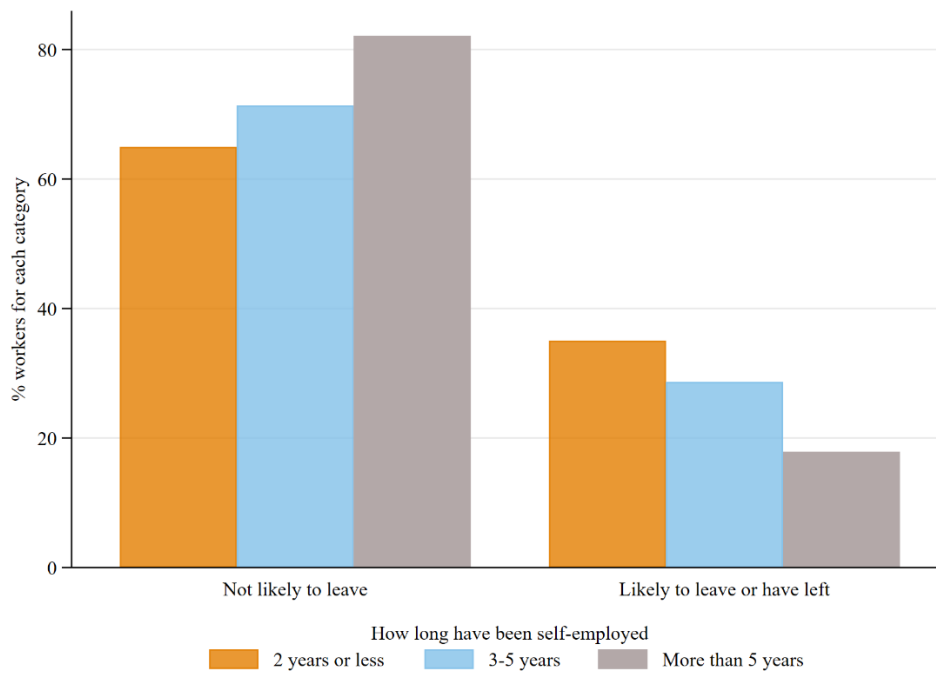


Source: Quarterly Labour Force Survey.

It is useful to ask whether this group of new self-employed might differ from those who have been self-employed for a longer time, and have proved to be resilient to the recent adverse conditions. The analysis in the previous section has already highlighted the latter category to have a better understanding of government support requirements and to have received more payments. In our survey, we further investigate the future perspectives and expectations of different groups of self-workers, based on the time they have been self-employed. More specifically, we ask whether they expect to be self-employed five years from the time of the survey. Those who have been self-employed for 5 or more years are about 8 percentage points more likely to stay in self-employment in the considered time frame than those who have recently joined self-employment.

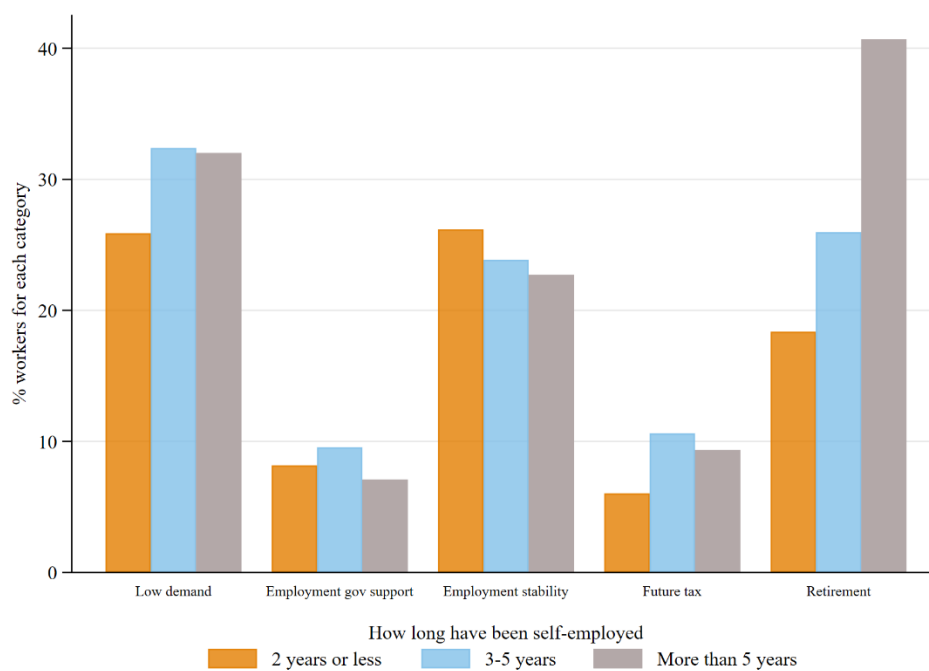
We also try to test the expected longevity of new self-employed by asking respondents whether they have left or are likely to leave self-employment. Figure 7 shows results by time spent in self-employment. The graph confirms the above observations, with newcomers more likely to leave or have left the sector. Figure 8 complements the findings by looking at the reasons that might push workers out of self-employment. Those who have been self-employed for longer are significantly more likely to move from self-employment because of retirement. More recent self-employed appear to attribute greater value to employment stability and would consider its absence as an incentive to leave.

Figure 7: Likelihood of leaving self-employment



Source: LSE-CEP Survey of UK Self-employment September 2021.

Figure 8: Motivations to leave self-employment



Source: LSE-CEP Survey of UK Self-employment September 2021.

Conclusions

This briefing extends earlier analyses of the impact of the crisis on the self-employed undertaken by CEP (Blundell and Machin, 2020; Blundell et al, 2020; 2021) through to a fourth survey launched in September 2021. Eighteen months into the crisis, it shows that the deleterious effects on the economic fortunes of the self-employed has been highly persistent. Whilst the income levels of the self-employed have improved marginally, they remain well below pre Covid-19 levels and a significant proportion continue to report financial difficulties. Take-up of government support measures appears to have dropped, despite a relaxation of eligibility conditions and the fact that we have witnessed a fourth and fifth SEISS. Uncertainty of eligibility is a strong factor for this reduced take-up, suggesting a lower than optimal level of communications between government schemes and the self-employed.

The population of the self-employed has experienced an increase in its churn – featuring rises in the proportion of newcomers and leavers, with consequences for its composition (size, sector, demographics). However, those more recently entering self-employment appear to be less able or willing to access support, have a lower resource base and are therefore, less able to absorb the uncertainty associated with the crisis, leading them to strongly consider dropping out of self-employment. This suggests that a significant proportion of the recent increase in self-employment may be temporary jobs, a precarious form of employment, and that the self-employment state is likely to be one of short duration for individuals who may (if they can) switch back to becoming employees once the economy recovers. It also appears that there is a group of resilient self-employed workers, including those who employ others, who are more aware of whether they are eligible for government support. This diversity across the self-employed, accentuated by the COVID-19 crisis, is a recurring theme throughout this report and resonates with the findings of previous CEP surveys and other studies.

Overall the findings reveal an unevenness in the experiences of the self-employed and their financial well-being in the COVID-19 crisis. Those self-employed who are parents, women, and younger workers report greater financial difficulties, suggesting that the uneven impacts of the crisis will continue. Thus whilst the financial well-being of the self-employed has been found to be relatively poor compared with employees during the crisis (see also Yue and Cowling, 2021), these latest results demonstrate diversity within the self-employed. This may be a result of a combination of demographic, sector and scale factors. But overall the economic fortunes of the self-employed continue their decline eighteen months into the crisis.

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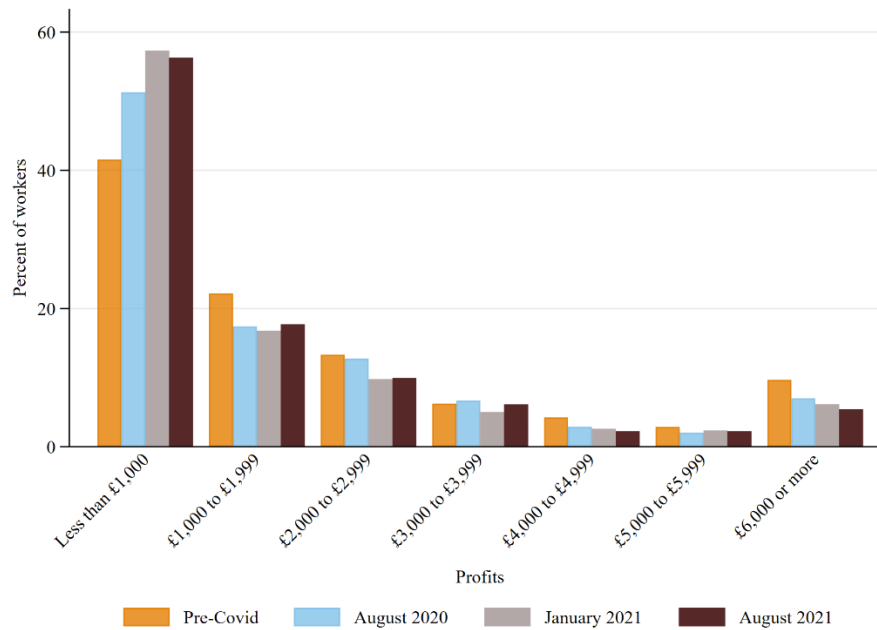
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Appendix A

Figure A1: Monthly profits - Before Covid, August 2020, January 2021, August 2021



Source: LSE-CEP Survey of UK Self-employment September 2021.

Table A1: Likelihood of receiving four or five SEISS grants, Regression Estimates

| | Dependent variable: Received four or five grants | | |
|---------------------------|--|------------------------|------------------------|
| | (1) | (2) | (3) |
| Female | -0.0292 (0.0238) | -0.0434* (0.0232) | -0.05690** (0.0225) |
| Age | 0.0030*** (0.0009) | 0.0028*** (0.0008) | -0.0004 (0.0008) |
| Work from home | | -0.0011*** (0.0003) | -0.0010*** (0.0003) |
| <i>Self employed for:</i> | | | |
| 1 – 2 years | | | 0.0102 (0.0143) |
| 3 – 5 years | | | 0.0917*** (0.0217) |
| 5 – 10 years | | | 0.1850*** (0.0287) |
| More than 10 years | | | 0.2360*** (0.0273) |
| Constant | 0.0272 (0.0381) | 0.108*** (0.0387) | 0.1250*** (0.0381) |
| Observations | 1,505 | 1,505 | 1,505 |
| R-squared | 0.013 | 0.030 | 0.082 |

Notes: Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1. OLS regressions. All specifications use probability weights to match LFS aggregates. The dependent variable equals 1 if the respondent reports having received four or five SEISS grants at the time of the survey. “Work from home” is expressed on a scale from 0 to 1. Reference category for the time in self-employment is “Less than 1 year”.

Appendix B

The data collected for this policy brief represents the fourth wave of the LSE-CEP Survey of UK Self-employment, following the first edition in May 2020 and its follow-ups in September 2020 and February 2021 (Blundell & Machin, 2020; Blundell et al, 2020; Blundell et al, 2021). All data is self-reported and has been collected between 15-25 September. The survey was administrated by a third party, who provided the panel of individuals that have recently registered as self-employed.

Because the panel's composition is not revised daily, we were able to survey respondents that were self-employed at the time of the last update but have changed their status since. We obtained a total of 1,505 responses. Part of the analysis uses the subset of 1,162 respondents who report their current status as self-employed. Responses are weighted to be representative of the relevant population using the aggregates from Labour Force Survey, with gender, age and education level as weighting variables. Given the current instability of the labour market, population estimates of shares are likely to become outdated relatively quickly. We have used the May-July 2021 LFS, the latest version available at the time of writing.



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